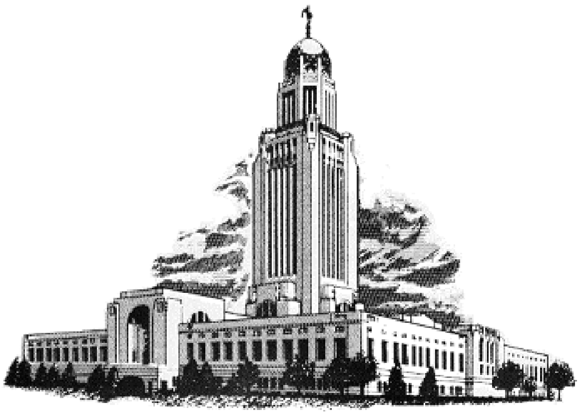
Tax Rate Review Committee



Required November Meeting
Pursuant to Section 77-2715.01

Appropriations Committee Chair	Senator LaVon Heidemann
Executive Board Chair	Senator John Wightman
Speaker of the Legislature	Senator Mike Flood
Revenue Committee Chair	Senator Abbie Cornett
Tax Commissioner	Douglas Ewald

Prepared by the Legislative Fiscal Office
November 19, 2012

Summary

This report includes a current projected General Fund Financial Status for the upcoming FY2013-14 and FY2014-15 Biennial Budget. Until now, this biennium had been shown as the "out years" in previous financial but official revenue forecasts and the fact this biennium is the next budgeting cycle results in a new estimated financial status for the "out years" bringing in the FY2015-16 and FY2016-17 biennium. Assumptions for construction of the status for the upcoming biennium and estimates for the following biennium are discussed individually later in this report

PROJECTED SHORTFALL

This projected financial status shows an ending balance $195 million ***below*** the minimum reserve for the upcoming FY13-14 / FY14-15 biennial budget. This projected "shortfall" grows slightly to $206.9 million in the following FY15-16 / FY16-17 biennium.

These estimates are based on (1) current law, (2) October Forecast Board projections for FY13, FY14 and FY15, (3) revenue projections for the following biennium using the "historical average" methodology, and (4) an initial pre-session assessment of General Fund appropriations under current law using both agency requests and historical trends. The revenue forecasts and projected status for the FY14/FY15 biennium incorporate the full impact of two revenue bills enacted in the 2011 and 2012 sessions which had minimal impacts in the FY12/FY13 biennium but much larger impacts in the FY14/FY15 biennium as shown below.

	FY2012-13	FY2013-14	FY2014-15
Build Nebraska Act, highway system (LB84-2011)	0	(58,727,000)	(73,552,000)
Change income tax brackets and rates (LB970-2012)	(7,863,000)	(33,706,000)	(55,608,000)
Total General Fund Impact	(7,863,000)	(92,433,000)	(129,160,000)

The projected shortfall is significantly less than was projected at Sine Die 2012 as new and better information was incorporated at the time the FY14/FY15 biennium moved from being the "out years" in a five year financial status to the biennial budget which will be enacted in the upcoming 2013 legislative session. Revised and initial revenue forecasts reduced the projected shortfall by $231 million. Revised TEEOSA school aid estimates further reduced the shortfall by $202 million. Another substantial "savings" was in Dept. of Health and Human Services (DHHS) provider rates. At Sine Die a 3% per year increase was included while the DHHS request included a 3% reduction in rates for Medicaid, SCHIP, behavioral health and aging services.. While this projected status does not include a reduction in rates, it also does not include any increase in provider rates except for child care and developmental disability rate equity. A 3% per year rate increase would amount to $29 million in FY14, $58 million in FY15 for a two year total of $87 million.

REVENUE GROWTH

Revenue estimates for FY2012-13, FY2013-14 and FY2014-15 are the October 2012 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth implied by the forecasts for the FY14/FY15 biennium average 4.5% (3.9% in FY13-14 and 4.9% in FY14-15). When including the 3.9% growth in FY12-13 forecast, this provides an average growth of about 4.3% over the three years that affect the financial status for the upcoming biennium.

For the "following biennium", revenue growth is calculated at 5.6% per year using the historical average method. While these calculated amounts are fairly similar to the average of all the preliminary unofficial estimates prepared by the Nebraska Dept. of Revenue (NDR) and Legislative Fiscal Office (LFO) they are substantially above estimates using the Global Insight input and substantially under the estimates using Moody's input.

SPENDING GROWTH

For purposes of this projected status, spending growth is not derived based on what results in a balanced budget but is the best estimate of the costs of maintaining existing programs and services reflecting existing statute and policies. This then provides a benchmark from which the policy makers can examine the changes to statute and policy choices that are then necessary to then actually balance the budget.

The key phrase is statute and policies. The projected budget for TEEOSA school aid is based on current law where several cost saving provisions enacted in prior sessions expire. The 3% cut in provider rates that the Dept. of Health and Human Services included in their request was not incorporated into this projected status as that is a significant policy choice. The same with their request to eliminate funds for LB599 enacted in the 2012 Session which created a stand-alone SCHIP to provide eligibility for the unborn children of otherwise ineligible pregnant women. This report treats costs of LB599 as part of the ongoing budget base.

In developing the projected budget, in most cases the increases for the upcoming biennial budget (FY13-14 and FY14-15) reflect agency requests for the items shown. No new or expanded programs are included. I*n many cases, rationales for the FY14 and FY15 requests are incomplete as these requests are currently under analysis*. Estimated increases for the following biennium (FY15-16 and FY16-17) are based on historical trends.

Overall the projected budget results in a budget growth of 6.7% in FY2013-14 and 4.6% in FY2014-15, a 5.6% two year average. TEEOSA school aid is the single largest increase in the following biennium and accounts for 34% of the total increase in the budget. Medicaid is the second largest increase accounting for 18% of the total. About one-third ($34 million) of the increase in Medicaid is attributed to a decline in the federal Medicaid match rate (FMAP).

Projected Increases to FY13 Base Year	FY2013-14	FY2014-15	2 Yr Total	% of Total
TEEOSA School Aid	87,157,503	140,398,433	227,555,936	34.4%
Medicaid (other than ACA)	43,846,319	76,393,874	120,240,193	18.2%
Salary and Health Insurance	35,105,912	71,107,964	106,213,876	16.0%
Retirement (Schools, Patrol, Judges)	32,375,255	54,008,255	86,383,510	13.0%
ACA Health Care Reform	12,312,500	26,712,500	39,025,000	5.9%
Developmental Disability aid	5,090,622	9,873,565	14,964,187	2.3%
Special Education	4,847,346	9,815,876	14,663,222	2.2%
Homestead Exemption	4,162,000	7,005,000	11,167,000	1.7%
Inmate per diem costs	4,820,496	6,036,322	10,856,818	1.6%
Community Colleges	3,514,806	7,170,204	10,685,010	1.6%
Public Assistance & Child Welfare aid	4,976,252	5,138,548	10,114,800	1.5%
Early Childhood program	3,365,962	3,365,962	6,731,924	1.0%
Children's Health Insurance (SCHIP) (excludes ACA)	1,580,617	2,336,001	3,916,618	0.6%
DHHS Provider Rates (other than Child Care and DD)	0	0	0	0.0%
All Other	(445,891)	(46,595)	(492,486)	-0.1%
Total General Fund increase (biennial basis)	242,709,699	419,315,909	662,025,608	100.0%
Annual percent change	6.7%	4.6%	5.6%	

CASH RESERVE FUND

The unobligated ending balance in the Cash Reserve Fund is projected at $442 million. This is $110.8 million higher than was projected at Sine Die 2012. Of this amount, $52.9 million is the result of FY11-12 actual receipts being above the Sine Die estimate while the other $57.9 million is the amount that the current FY12-13 forecast is above the certified forecast. The projected General Fund financial status and projected shortfall does not assume any of this unobligated amount as use of these monies requires statute change.

Projected General Fund Financial Status

		Current Yr	Upcoming Biennium		Following Biennium	
		FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
1	**BEGINNING BALANCE**					
2	Beginning Cash Balance	498,526,356	267,679,357	132,811,903	37,272,239	15,042,952
3	Cash Reserve transfers-automatic	(104,789,781)	(57,934,000)	0	0	0
4	Carryover obligations from FY12	(269,133,209)	0	0	0	0
5	Lapse FY13 reapproriations	0	0	0	0	0
6	Allocation for potential deficits	0	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
7	Unobligated Beginning Balance	124,603,366	204,745,357	127,811,903	32,272,239	10,042,952
8	**REVENUES**					
9	Net Receipts (Oct 2012 NEFAB+Hist Avg)	3,825,000,000	3,922,000,000	4,080,000,000	4,343,000,000	4,593,000,000
10	General Fund transfers-out	(114,700,000)	(118,800,000)	(118,800,000)	(118,800,000)	(118,800,000)
11	General Fund transfers-in	in forecast	**0**	**0**	0	0
12	Cash Reserve transfers (current law)	78,000,000	0	0	0	0
13	Cash Reserve transfers (new)	0	0	**0**	0	0
14	2013 Revenue Bills	0	0	0	0	0
15	General Fund Net Revenues	3,788,300,000	3,803,200,000	3,961,200,000	4,224,200,000	4,474,200,000
16	**APPROPRIATIONS**					
17	Appropriations (current law)	3,632,423,755	3,632,423,755	3,632,423,755	3,632,423,755	3,632,423,755
18	2013 Mainline Budget Actions - Projected	12,800,254	242,709,699	419,315,909	419,315,909	419,315,909
19	Projected budget increases, following biennium	--	--	--	189,689,623	384,933,082
20	2013 State Claims	0	0	0	0	0
21	2013 "A" Bills	0	0	0	0	0
22	General Fund Appropriations	3,645,224,009	3,875,133,454	4,051,739,664	4,241,429,287	4,436,672,746
23	**ENDING BALANCE**					
24	Dollar ending balance (Financial Status as shown)	267,679,357	132,811,903	37,272,239	15,042,952	47,570,206
25	Dollar ending balance (at Minimum Reserve)			232,256,661		254,437,055
26	Excess (shortfall) from Minimum Reserve			**(194,984,422)**		**(206,866,850)**
27	Biennial Reserve (%)			0.5%		0.5%
	General Fund Appropriations					
28	Annual % Change - Appropriations (w/o deficits)	4.7%	6.7%	4.6%	4.7%	4.6%
29	Two Year Average	3.3%	--	5.6%	--	4.6%
	General Fund Revenues					
30	Est. Revenue Growth (rate/base adjusted)	3.9%	4.2%	4.9%	5.6%	5.6%
31	Two Year Average	4.7%	--	4.5%	--	5.6%
32	Five Year Average	1.8%	--	5.5%	--	5.0%
33	Structural Revenues vs Appropriations	65,075,991	(71,933,454)	(90,539,664)	(17,229,287)	37,527,254

CASH RESERVE FUND	FY2012-13	FY2013-14	FY2014-15	FY2013-14	FY2014-15
Beginning Balance	428,878,372	384,120,027	442,054,027	442,054,027	442,054,027
Excess of certified forecasts (line 3 in Status)	104,789,781	57,934,000	0	0	0
To/from Gen Fund per current law	(78,000,000)	0	0	0	0
To/From Water Contingency Cash Fund	4,990,198	0	0	0	0
EPIC cash flow transfers (LB379-2011)	4,461,676	0	0		
2012 To Affordable Housing Trust fund	(1,000,000)	0	0	0	0
2012 To Nebr Capital Construction Fund (NCCF)	(80,000,000)	0	0	0	0
2013 To General Fund	0	0	0	0	0
Projected Unobligated Ending Balance	384,120,027	442,054,027	442,054,027	442,054,027	442,054,027

Chronology of Projected Financial Status

(millions of dollars)	FY12 / FY13 Biennium	FY14 / FY15 Biennium	FY16 / FY17 Biennium
Variance from Minimum Reserve: Sine Die 2012 Session	**(.7)**	**(619.7)**	**NA**
1. General Fund Net Receipts (Actual vs Est FY12)	52.9	52.9	--
2. Above certified FY12 receipts to Cash Reserve Fund	(52.9)	(52.9	--
3. Accounting adjustment	(5.0)	(5.0)	--
4. Recalculate minimum reserve and accounting adjustment	.1	2.2	--
Variance from Minimum Reserve: TRR July 2012	**(3.9)**	**(624.3)**	**NA**
5. Revised/initial revenue forecasts FY13, FY14 and FY15	57.9	295.8	--
6. Above certified est FY13 receipts to Cash Reserve Fund	0.0	(57.9)	--
7. Recalculate minimum 3% reserve	0.0	(6.9)	--
Variance from Minimum Reserve: NEFAB Oct 2012	**----**	**(393.4)**	**NA**
8. Revised estimate of FY13 deficits (vs $5 million allocation)	0	(7.8)	--
9. Revised estimate of FY14/FY15 projected budget (2 yr total)	0	205.3	--
10. Recalculate minimum 3% reserve / cancelled transfer	0	1.0	--
Variance from Minimum Reserve: TRR Nov 2012	**----**	**(195.0)**	**(206.9)**

NOTES:

Item 5 Revised Revenue Forecasts:

Revised NEFAB forecast for FY12-13	$57.9 million
Original NEFAB forecasts vs LFO Prelim for FY13-14	$97.7 million
Original NEFAB forecasts vs LFO Prelim for FY14-15	$140.2 million
Three Year Total	$295.8 million

Item 9 Revised Estimated Spending versus Planning Numbers (millions of dollars)

Item	FY13-14	FY14-15	Total
Revised TEEOSA aid estimates (Oct 2012 Joint Meeting)	87.3	114.5	201.8
Public Assistance+Child Welfare (8.2% to adjusted request)	23.1	39.2	62.3
Medicaid (7.5% to adjusted request)	3.4	21.7	25.1
Health Insurance increase (10% to 5% and Higher Ed request)	9.6	16.3	25.9
Operations cost increases (est to 24/7 facility request)	4.6	10.0	14.6
Replace onetime cash, fund shifts (HHS)	6.4	6.4	12.8
Behavioral health (3% to 0% request)	2.0	4.3	6.3
Defined benefit retirement funding (est to request)	(30.8)	(55.8)	(86.6)
Health Care Reform	(12.3)	(26.7)	(39.0)
Inmate per diem costs (6% vs request)	(3.6)	(3.6)	(7.3)
Homestead exemption (3% to request)	(1.8)	(2.3)	(4.1)
Revised estimate of budget increases, all other	(1.8)	(1.7)	(3.5)
Developmental Disability aid (3% to transition only)	(1.2)	(2.0)	(3.2)
Change in Minimum Reserve	0.0	0.2	0.2
Change in Projected Budget	84.8	120.5	205.3

Cash Reserve Fund

The Cash Reserve Fund (CRF) is not included as part of the "General Fund Reserve" (which is the ending General Fund balance for a biennium) and was created as a separate and distinct fund to cover cash flow needs within a month or several month period. The Cash Reserve Fund also serves as a “rainy day fund” in that revenues in excess of a “certified forecast” are transferred from the General Fund to Cash Reserve fund at the end of a fiscal year. As the certified forecast is basically the revenue estimate at Sine Die when the budget is finalized, these transfers sequester revenues in excess of that which is needed to balance the budget. The Cash Reserve Fund unobligated balance at the end of this biennium is projected at $442 million. This is based on all existing statutory transfers.

Table 1 - Cash Reserve Fund Cash Flow

	Estimated FY2012-13	Estimated FY2013-14	Estimated FY2014-15	Estimated FY2015-16	Estimated FY2016-17
Beginning Balance	428,878,372	384,120,027	442,054,027	442,054,027	442,054,027
Excess of certified forecasts (line 3 in Status)	104,789,781	57,934,000	0	0	0
To Gen Fund per current law	(78,000,000)	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(80,000,000)	0	0	0	0
To Affordable Housing Trust fund	(1,000,000)	0	0	0	0
Repayment of Water Contingency transfer	4,990,198	0	0	0	0
EPIC cash flow transfers (LB379-2011)	4,461,676				
Ending Balance	384,120,027	442,054,027	442,054,027	442,054,027	442,054,027

EXCESS OF CERTIFIED FORECASTS

Shown on line 3 of the Financial Status, revenues in excess of "certified" forecasts are required by statute to be transferred from the General Fund to the Cash Reserve Fund. These would take place in July of the fiscal year following completion of that year. The $104,789,781 transfer in FY13 reflects the amount the FY2011-12 actual receipts were above certified. This was $53 million above what was estimated at Sine Die 2012. The $57.9 million in FY14 reflects the amount that the NEFAB forecast in October 2012 for FY12-13 exceeds the July certified level and is just an estimate not an actual amount.

TRANSFERS TO / FROM GENERAL FUND

Unlike the automatic transfers that occur after the close of the fiscal year and are statutorily required, other transfers can take place as specifically enacted by the Legislature. Transfers in FY2012-13 under existing law include LB 379-2011 ($68,000,000) and LB131-2012 ($10,000,000) to assist in balancing the budgets in those respective sessions..

Transfers to/from the General Fund	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
To GF, LB 379-2011)	(68,000,000)	0	0	0	0
To GF, LB131-2012	(10,000,000)	0	0	0	0
Net Transfers to/From General Fund	(78,000,000)	0	0	0	0

TRANSFERS TO/FROM OTHER FUNDS

In the 2008 session, LB1094 provided for a $9 million transfer to the Water Contingency Cash Fund for the purpose of paying water right holders who agreed to lease and forgo water use to assist in the management, protection and conservation of the water resources of river basins, but remain unpaid due to litigation. Repayment by the NRD receiving said funds is required once the litigation is resolved no later than FY2012-13. The actual amount used was $8.5 million and is being repaid over two years, $3.6 million in FY12 and $4.99 million in FY13.

Also LB379-2011 allowed transfers to be made to the Ethanol Production Incentive (EPIC) Fund for cash flow purposes. A total of $4,461,676 was borrowed in FY2011-12 with repayment shown in FY2012-13.

In the 2012 session there were two transfers made to other funds. The first is a $1 million transfer to the Affordable Housing Trust Fund which followed from notice of an amount to be credited from the National Mortgage Settlement. The second is an $80 million transfer to the Nebraska Capital Construction Fund (NCCF) for five different capital construction projects as shown below.

State Colleges - Chadron Armstrong Gym	$6,700,000
State Colleges - Peru Oak Bowl improvements	7,500,000
University of Nebraska - UNK Allied Health	15,000,000
University of Nebraska - UNMC Cancer Research tower	50,000,000
DAS - Centennial Mall project	800,000
Transfers to NCCF	80,000,000

General Fund Revenues

GENERAL FUND REVENUE FORECASTS

Revenue Forecasts - Current Biennium (FY13, FY14 and FY15)

Revenue estimates for FY2012-13, FY2013-14 and FY2014-15 are the October 2012 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth implied by the forecasts for the FY14/FY15 biennium average 4.5% (3.9% in FY13-14 and 4.9% in FY14-15). When including the 3.9% growth in FY12-13 forecast, this provides an average growth of about 4.3% over the three years that affect the financial status for the upcoming biennium.

The projected numbers for FY2013-14 and FY2014-15 also reflect initial implementation of LB84 (2011) which diverts the equivalent of ¼% sales tax to highway funding (approximately $70 million per year). This did not impact the calculated revenue growth in the “out years” as the growth calculations are all rate and base adjusted.

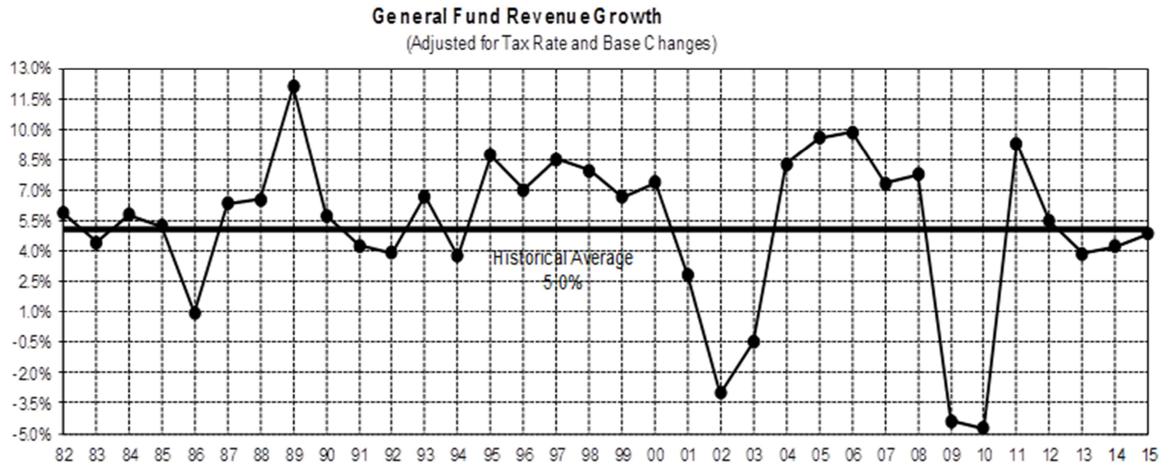
Revenue Forecasts - Following Biennium (FY16 and FY17)

The NEFAB does not make official forecasts for the following biennium or what’s commonly referred to as the “out years”. Although different methodologies could be utilized, the revenue estimates used for the following biennium (FY15-16 and FY16-17) in the current financial status are prepared by the Legislative Fiscal Office (LFO) using the “capped” historical average methodology. This “smoothing” technique derives a revenue growth for the “out years” by calculating the level of revenues that would yield a five year average growth (FY12 to FY17) roughly equal to the historical average from FY81 to FY12 (5.0%). Inherent in this methodology is the concept that within any five-year period, below average revenue growth in some years will be offset by above average growth in others and is visually seen in the line graph of historical adjusted revenue growth.

Under this method, revenue growth for the two years would average 5.6%. This is slightly above the 31 year average reflecting the slightly below average growth inherent in the NEFAB forecasts, for FY13 to FY15.

Table 2 General Fund Revenue Forecasts

	NEFAB FY2012-13	NEFAB FY2013-14	NEFAB FY2014-15	LFO Prelim FY2015-16	LFO Prelim FY2016-17
Actual/Forecast					
Sales and Use Tax	1,480,000,000	1,490,000,000	1,550,000,000	1,628,000,000	1,707,000,000
Individual Income Tax	1,915,000,000	2,010,000,000	2,095,000,000	2,262,000,000	2,442,000,000
Corporate Income Tax	240,000,000	255,000,000	270,000,000	276,000,000	280,000,000
Miscellaneous receipts	190,000,000	167,000,000	165,000,000	177,000,000	164,000,000
Total	3,825,000,000	3,922,000,000	4,080,000,000	4,343,000,000	4,593,000,000
Adjusted Growth					
Sales and Use Tax	3.3%	4.6%	4.8%	4.5%	4.4%
Individual Income Tax	5.4%	4.1%	4.4%	7.4%	7.4%
Corporate Income Tax	-4.1%	6.3%	7.4%	2.6%	2.0%
Miscellaneous receipts	3.2%	-1.1%	7.1%	0.1%	0.2%
Total	3.9%	4.2%	4.9%	5.6%	5.6%
Five Yr Average	1.8%	--	5.5%	--	5.0%



As noted above, other alternative methods are available for purposes of deriving revenue estimates for the following biennium. In addition to the historical average methodology used in the financial status, both the Nebraska Dept. of Revenue (NDR) and Legislative Fiscal Office (LFO) have calculated revenue estimates for these two "out years" using the same models and input from Global Insight and Moody's, the national forecasting services used as input into the tax forecast models. While these forecasts work well for the 1 to 3 year forecasts, when extended further they have a tendency to flatten out and follow the 3 year trend into the 4th and 5th year. In other words, they have difficulty picking up changes in the trend. The historical average methodology, the method used since 1991 and used in the current financial status, utilizes a "smoothing" technique which derives a revenue growth for the "out years" by calculating the level of revenues that would yield a five year average growth (FY09 to FY13) roughly equal to the historical average from FY81 to FY11 (currently 5.0%).

As shown in Table 3 the preliminary estimates for the two "out years" arrived at using the historical average concept (as used in the Financial Status), show a variety of forecasts which vary substantially. The estimate using the historical average method is close to the average of all the preliminary, unofficial estimates. However they are substantially above estimates using the Global Insight input and substantially under the estimates using Moody's input.

Table 3 Comparison of "Out Year" Forecasts

Based on October 2012 Revenue Forecasts	Current Status Hist Avg	Average (Global Insight)	Average (All Forecasts)	High Est NDR-Moodys	Low Est LFO-Global
Dollar Forecast (thousands)					
FY2015-16 Prelim	4,343,000	4,253,468	4,349,090	4,458,927	4,201,788
FY2016-17 Prelim	4,593,000	4,437,804	4,557,693	4,690,588	4,365,911
Calculated Growth*					
FY2015-16 Prelim	5.6%	3.6%	5.7%	8.1%	2.5%
FY2016-17 Prelim	5.6%	4.3%	4.7%	5.1%	3.9%
Two Year Average	5.6%	4.0%	5.2%	6.6%	3.2%
Five Year Average	**4.8%**	**4.2%**	**4.7%**	**5.2%**	**3.9%**
$ Difference from Status					
FY2015-16 Prelim	0	(89,532)	6,090	115,927	(141,212)
FY2016-17 Prelim	0	(155,197)	(35,307)	97,588	(227,089)
Cumulative Total	0	(244,729)	(29,217)	213,515	(368,301)

* all are calculated based on the NEFAB FY13-14 and FY14-15 forecasts

GENERAL FUND TRANSFERS-OUT

This area tabulates funds that are transferred from the General Fund to another fund within the state treasury. These items have the same effect as an appropriation but are not expended as such and thus are shown under the revenue category (see line 10 on the Financial Status).

Table 4 - General Fund Transfers Out

Excludes CRF Transfers	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Ethanol Credits (EPIC Fund)	cancelled	0	0	0	0
Property Tax Credit Fund	(110,000,000)	(115,000,000)	(115,000,000)	(115,000,000)	(115,000,000)
Water Resources Cash Fund	(4,700,000)	(3,300,000)	(3,300,000)	(3,300,000)	(3,300,000)
Cultural Preservation Endowment Fund	0	(500,000)	(500,000)	(500,000)	(500,000)
Total-General Fund Transfers-Out	(114,700,000)	(118,800,000)	(118,800,000)	(118,800,000)	(118,800,000)

Ethanol Production Incentive (EPIC)

LB90-2005 $2.5 million per year from FY2005-06 through FY2011-12. The end date of the EPIC program is December 31, 2012. In 2011 LB 378 provided an additional $3.8 million for FY2011-12 for a total of $6.3 million. In 2012 LB969 reduced the EPIC fund transfer from $3.8 million to "up to $1,000,000" in FY2011-12 though thie authority was extended into FY12-13. As this amount was not used in FY11-12 the potential use of the $1,000,000 transfer was extended into FY2012-13. In November 2012 the State Budget Administrator determined that the transfer was not needed and the projected transfer was removed from the projected budget.

Property Tax Credit Cash Fund

Under this program transfers are made to the Property Tax Credit Cash Fund at the discretion of the Legislature. Based on the amount of funds available, monies are then allocated to counties by the ratio of the real property valuation in the county to the real property valuation in the state. Counties then allocate funds as credit to each tax payer again based on their proportionate value. Enacted in 2007, the amount available for credits was $105 million in FY07-08, an $115 million in FY08-09, FY09-10, and FY10-11.

The current budget provides for $115 million of credits in FY2012-13. This $115 million level is financed by transfers of $110 million each year from the General Fund, drawing down an existing balance in the fund, and interest that will be earned on the fund balance from the time of transfer to the time of payment to the counties. The projected financial status includes transfers of $115 million per year.

Water Resources Cash Fund

These transfers were originally enacted by LB 701 (2007) for the purpose of (1) aiding compliance efforts regarding the reduction of consumptive uses of water dealing with those natural resources districts which are deemed over or fully appropriated or are bound by an interstate compact or decree; and (2) for a statewide assessment of short- and long-term water management activities and funding needs that are statutorily required. The bill included actual transfers of $2.7 million in both FY07-08 and FY08-09 and intent language for a $2,700,000 General Fund transfer to occur annually from FY2009-10 through FY2018-19. LB229 enacted during the 2011 Session increased this transfer amount from $2.7 million to $3.3 million per year with no change in the FY2018-19 sunset.

Nebraska Cultural Preservation Endowment Fund

The Cultural Preservation Endowment Fund was originally created in 1998 with a transfer of $5 million from the General Fund. LB 1165 (2008) provided for an additional $5 million for the endowment fund through a $1 million transfer from the Cash Reserve Fund and intent language that $2 million shall be transferred from the General Fund to the Nebraska Cultural Preservation Endowment Fund in both FY2009-10 and FY2010-11. The enacted budget spread that $4 million over a four year period, $500,000 in FY10 and FY11 and $1.5 million in FY12 and FY13. LB1063 (2010) changed the statutory transfers from two $1.5 million transfers to the Fund in both FY11-12 and FY12-13. to two transfers of $500,000 and then extending the $500,000 transfers for three more years, FY13-14, FY14-15, and FY15-16. LB485 enacted in the 2011 Session deleted the FY12 and FY13 transfers, and then extended the $500,000 annual transfers to FY16-17 and FY17-18

GENERAL FUND TRANSFERS IN

Cash funds are funds which contain earmarked revenue sources and monies in those funds can only be used for the purposes authorized by statute. In many instances (since the 2009 special session) an authorized use of monies in a cash fund is transfers to the General Fund at the discretion of the Legislature. For accounting purposes, these are shown as “Transfers in” and are included as revenues. The transfers shown below for FY2012-13 were enacted in the 2011 and 2012 sessions and already incorporated into the “Net Receipts” figures of the NEFAB forecasts

At the present time, current law does not provide for any transfers in FY14 and FY15 and as such the revenue forecasts do not include any transfers.

Table 5 General Fund Transfers In

	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Securities Act Cash Fund	19,000,000	0	0	0	0
Tobacco Products Admin Cash Fund	7,000,000	0	0	0	0
Dept. of Insurance Cash Fund	6,000,000	0	0	0	0
Dept. of Motor Vehicles Cash Fund	1,000,000	0	0	0	0
Mutual Finance Assistance Fund	300,000	0	0	0	0
Local Civic, Cultural, and Convention Center Fund	75,000	0	0	0	0
Total General Fund Transfers-In	33,375,000	0	0	0	0

General Fund Appropriations

Table 6 contains General Fund totals for the projected budget based on the increases noted in Table 7. These increases are a "best guess" estimate of budget changes for the upcoming biennial budget and the following biennium. A narrative description of the assumptions used in arriving at these numbers follows Table 7. These estimates reflect a basic continuation budget, including only those increases related either to entitlement programs, legislative intent, or costs to implement previously enacted legislative actions and reflect existing statute and policies. This then provides a benchmark from which policy makers can examine the changes to statute and policy choices that are then necessary to then actually balance the budget..

The key phrase is statute and policies. The projected budget for TEEOSA school aid is based on current law where several cost saving provisions enacted in prior sessions expire. The 3% cut in provider rates that the Dept. of Health and Human Services included in their request was not incorporated into this projected status as that is a significant policy choice. The same with the request to eliminate funds for LB599 enacted in the 2012 Session which created a stand-alone SCHIP to provide eligibility for the unborn children of otherwise ineligible pregnant women.

In many cases, the projected increases for the upcoming biennial budget (FY13-14 and FY14-15) reflect agency requests for the items shown while estimated increases for the following biennium (FY15-16 and FY16-17) are based on historical trends.

Note that in most cases, rationales for the FY13-14 and FY14-15 requests are not available as these requests are currently under analysis.

Table 6 Projected General Fund Budget

	Current Year	Upcoming Biennial Budget		Est for Following Biennium	
	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Projected Budget					
Agency Operations	1,259,608,562	1,334,843,236	1,394,657,011	1,445,617,960	1,496,704,035
State Aid to Ind/Other	1,135,672,088	1,201,002,435	1,253,226,936	1,334,685,620	1,421,256,610
State Aid to Local Govt	1,216,370,872	1,319,769,783	1,384,837,717	1,442,107,707	1,499,694,101
Construction	20,772,233	19,518,000	19,018,000	19,018,000	19,018,000
Total (w/o deficits)	3,632,423,755	3,875,133,454	4,051,739,664	4,241,429,287	4,436,672,746
Dollar Change					
Operations	34,331,901	75,234,674	59,813,775	50,960,949	51,086,075
State Aid to Ind/Other	78,388,355	65,330,347	52,224,501	81,458,684	86,570,989
State Aid to Local Govt	42,426,570	103,398,911	65,067,934	57,269,989	57,586,394
Construction	6,745,000	(1,254,233)	(500,000)	0	0
Total (w/o deficits)	161,891,826	242,709,699	176,606,210	189,689,623	195,243,459
Percent Change					
Agency Operations	2.8%	6.0%	4.5%	3.7%	3.5%
State Aid to Ind/Other	7.4%	5.8%	4.3%	6.5%	6.5%
State Aid to Local Govt	3.6%	8.5%	4.9%	4.1%	4.0%
Construction	48.1%	-6.0%	-2.6%	0.0%	0.0%
Total (w/o deficits)	4.7%	6.7%	4.6%	4.7%	4.6%

Overall the projected budget results in a budget growth of 6.7% in FY2013-14 and 4.6% in FY2014-15, a 5.6% two year average. TEEOSA school aid is the single largest increase in the following biennium and accounts for 34% of the total increase in the budget. Medicaid is the second largest increase accounting for 18% of the total. About one-third ($34 million) of the increase in Medicaid is attributed to a decline in the federal Medicaid match rate (FMAP).

Table 7 - Projected Continuation Budget Increase - Dollar Change over Prior Year

	Projected Growth		Upcoming Biennial Budget		Est for Following Biennium	
Change over Prior Year	FY13-14	FY14-15	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Aid to Local Governments						
TEEOSA School Aid	10.4%	5.8%	87,157,503	53,240,930	46,135,530	46,128,773
Special Education	2.5%	2.5%	4,847,346	4,968,530	5,092,743	5,220,062
Community Colleges	4.0%	4.0%	3,514,806	3,655,398	3,287,488	3,402,550
Homestead Exemption	5.7%	3.7%	4,162,000	2,843,000	2,385,150	2,456,705
Early Childhood program	--	--	3,365,962	0	0	0
Aid to ESU's	2.5%	2.5%	351,294	360,076	369,078	378,305
Aid to Individuals / Other						
Medicaid (excludes ACA)	6.8%	4.7%	43,846,319	32,547,555	54,072,530	58,127,970
Public Assistance & Child Welfare aid	1.9%	0.1%	4,976,252	162,296	14,919,413	15,814,578
Developmental Disability aid	5.0%	4.5%	5,090,622	4,782,943	4,470,077	4,648,881
Behavioral Health aid	0.3%	0.1%	236,537	76,323	2,263,382	2,331,284
Childrens Health Insurance(excludes ACA)	12.1%	5.1%	1,580,617	755,384	1,533,281	1,648,277
ACA Health Care Reform (aid)	--	--	9,600,000	13,900,000	4,200,000	4,000,000
State Agency Operations						
Retirement (Schools, Patrol, Judges)	est amt	est amt	32,375,255	54,008,255	0	0
Employee Salaries	2.5%	2.5%	25,533,710	25,795,359	26,449,431	27,110,667
Employee Health Insurance	5%-8%	5%-8%	9,572,202	10,206,693	17,206,107	18,926,717
Inflation increases, HHS 24/7 facilities	est amt	est amt	1,063,801	462,897	5,738,296	5,853,062
ACA Health Care Reform (operations)	est amt	est amt	2,712,500	500,000	200,000	(2,212,500)
Inmate per diem costs	est amt	est amt	4,820,496	1,215,826	1,367,115	1,408,129
Fund shifts one time use of funds (HHS)	est amt	est amt	0	0	0	0
Takeover county assessor	est amt	est amt	(616,540)	0	0	0
Other (Oper)	est amt	est amt	(226,750)	0	0	0
Capital Construction	Reaff	Reafff	(1,254,233)	(500,000)	0	0
All Other (net)			0	0	0	0
Total General Fund-Annual Increase			242,709,699	176,606,210	189,689,623	195,243,459
Biennial Basis			242,709,699	419,315,909	189,689,623	384,933,082

AID TO LOCAL GOVERNMENTS

Special Education

The agency request included a 5% increase for both FY13-14 and FY14-15 based on the statutory maximum allowed. This estimate for FY14 and FY15 includes a 2.5% per year increase which is the basic allowable growth rate for those two school years.

State Aid to Schools (TEEOSA)

The estimates reflect a growth in total TEEOSA school aid of 10.3% in FY13-14 and 6.0% in FY14-15.

The FY13-14 TEEOSA growth of 10.3% reflects an estimated spending growth (General Fund Operating Expenses) of 1.4% in school year FY12 based on preliminary Annual Financial Report data and a 5.8% growth in property valuations. Normally this differential would cause a decline in aid. However in FY14 several provisions of LB235 passed in the 2011 Session expire resulting in the local effort rate (LER) returning to $1.00 from $1.0395 and the cost growth factor going from .5% to 3.0% in FY14 and then 5.0% in FY15. The cost growth factor is used to take two year old actual data and inflate to “aid year” amounts. All of the growth in FY14 TEEOSA aid is attributed to the expiration of these two items.

For FY14-15, the 6.0% growth is largely attributed to the cost growth factor going from 3.0 to 5.0. Spending growth is projected at 3% based on an initial budget to budget growth in school year FY13. Property valuation is projected to increase by 5.3%. The combination of these two yields a very small increase TEEOSA aid.

Normally in circumstances where property valuation growth is significantly higher than school spending growth, you would see a decline in TEEOSA aid. However the valuation growth is the combined impact of double digit growth in agricultural land and very low growth in residential property. And because a large amount of ag land is in non-equalized districts, only a small portion of the valuation growth can actually be “used” in the formula.

FY16 and FY17 are based on the same methodology utilized for the November 15 estimates required under current law for the proposed biennial budget but with Fiscal Office assumptions and should be considered Fiscal Office estimates. Both years assume a 4% growth in both property valuation and spending

Early Childhood program

In the 2011 Session, LB333 shifted funding for several education programs from the General Fund to the Education Innovation Fund (lottery). For the early childhood program, this shift was only for two years thus the general funds are restored starting in FY13-14.

Aid to ESU's

The amount of aid to ESU's is based on funding of a certain level of core services and technology infrastructure. Growth in aid is set at the same rate as the basic allowable growth rate under the school spending limitation (2.5% for FY14 and FY15)

Homestead Exemption

Based on the agency request, this program is projected to increase by $4.2 million (5.7%) in FY13-14 and an additional $2.8 million (3.7%) in FY14-15.

Aid to Community Colleges

The FY14 and FY15 projected status includes a 4% per year increase in aid. This approximates the overall growth in the University and State Colleges in these estimates which includes funding for salary and health insurance increases.

Aid to Individuals/Other

Medicaid

For the upcoming biennium, the projected budget is based on the agency request excluding statutory and/or major policy change items that were included within that request, basically a 3% provider rate cut ($16.9 million).

Overall increase in General Funds is 6.8% in FY13-14 which includes $28.6 million for eligibility and utilization increases and $14.9 million for a reduction in the federal match rate (FMAP). Though the provider rate cut is not included in these numbers, these projections do not include any increase in provider rates either.

Public Assistance and Child Welfare

For the upcoming biennium, the projected budget is based on the agency request (excluding one cut issue) and results in an increase of only 1.9% in FY13-14 and .1% in FY14-15. The request includes no increase for eligibility, utilization, or rate increases except for a $4.2 million increase in child care rates to reach the sixtieth percentile of current market rates beginning SFY2014.

Children's Health Insurance (SCHIP)

For the upcoming biennium, the projected budget is based on the agency request for eligibility and utilization increases and the decline in the federal match rate (FMAP). No provider rate increase is included. Overall funding increases by 12.1% in FY13-14 and 5.1% in FY14-15. In this program, the growth in General Funds is higher than the growth in the overall program total as the General Fund also must cover increased costs related to the amount financed from the Health Care Cash Fund which is fixed at $5 million.

These projections for SCHIP *do not include* the agency request for a 3% provider rate cut or elimination of funding for a stand-alone SCHIP to provide eligibility for the unborn children of otherwise ineligible pregnant women as contained in LB599 enacted last session.

Developmental Disability Aid

Funding for developmental disability aid increases by 5.0% in FY13-14 and 4.5% in FY14-15. This includes $1.4 million in FY14 and an additional $1.4 million in FY15 for clients transitioning from K-12 programs and $2.3 million in FY14 for a reduced FMAP. Although the DHHS request includes a 14.5% increase for implementing a new rate methodology, this projected budget only includes a 2.5% per year rate equity increase the same as state employee salary increases. This projected budget also does not include any additional funds related to reducing the waiting list.

Behavioral Health Aid

This area includes substance abuse and mental health aid. The projected status includes no change in funding other than a small increase to offset a decline in the federal FMAP match rate. The agency requested 3% cut in provider rates was not included. As noted previously, statutory or major policy change items have not been incorporated into these projections.

Health Care Reform (Aid)

A large unknown for the upcoming biennium is the costs that the state will incur due to federally enacted health care reform as contained in the Patient Protection and Affordable Care Act (PPACA or ACA). Most of the expanded coverage affecting the state becomes operative in 2014. Because of countless variables and unknowns there are no definitive estimates. There have been several attempts to derive cost estimates and the dollar amounts vary substantially. Milliman, Inc. retained by the Nebraska Department of Health and Human Services to provide consulting services related to the financial review of the act originally derived a state cost of

$465 million from FY14 though FY20. The Urban Institute / Kaiser Foundation estimated costs at $106 to $155 million over the same time period while the Center for Health Policy at the University of Nebraska Medical Center estimated the cost at $140 to $168 million again over the same period. DHHS included large General Fund amounts in their budget request for Medicaid and SCHIP costs, $47.3 million in FY13-14 and $98.5 million in FY14-15. Although DHHS indicates their request is based on the Milliman estimates, the dollar amounts are almost double those contained in the original Milliman report. One confusing aspect to these estimates is that it's not always clear exactly what provisions are included in each analysis.

For these reasons, the LFO prepared its own calculation instead of trying to pick which other estimate to use. This included deriving an estimate of the total number of people potentially eligible under the ACA (both currently eligible and new eligible under the Medicaid expansion), and then applying various assumptions for participation rates, cost per individuals, and federal/state matching rates. By developing an estimate "from scratch", this allows for no confusion as to what is or is not included in the calculations nor the assumptions used in developing the estimates.

The table below provides a summary of the projections and assumptions used. It only includes the costs that could be incurred based on current law and not the Medicaid expansion which would require statutory change. The costs under current law would include the cost of people currently eligible but not currently participating. This would include adults with children under 50% of the Federal Poverty Level (FPL) and uninsured children (0-17) under 200% FPL. These are commonly referred to as the "woodwork" or "welcome mat" population. Another group of those that are currently eligible for Medicaid or SCHIP but not participating are children (0-17) under 200% FPL but with private insurance. These would fall under the category of "insurance switchers". These estimates basically use the Urban Institute / Kaiser Foundation assumptions, starting with the Standard Scenario and then phasing in to the Enhanced Scenario in the fourth year (FY16-17). In the first two years, the key assumption cost-wise is the insurance shifter rate which starts and stays at 25%. Inherent in these assumptions is that these participation rates are triggered by outreach, program awareness, and interaction with the insurance exchanges not the individual mandate penalty which is only operative if the state chooses to participate in the Medicaid expansion.

,millions of dollars	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	Total
Projected State General Fund Costs								
Current Law - Medicaid / SCHIP	8.0	20.3	24.5	28.6	28.6	29.4	30.3	169.7
Foster Children to age 26	1.6	3.2	3.2	3.2	3.2	3.2	3.2	20.8
Administrative cost (3.5%, 50% match)	0.4	0.9	1.1	1.3	1.3	1.3	1.4	7.7
ACA IT Implementation (agency request)	2.3	2.3	2.3	0.0	0.0	0.0	0.0	6.9
Total: Per Current Law	12.3	26.8	31.2	33.1	33.0	33.9	34.9	205.1
Participation Rates								
Woodwork Population	10.0%	20.0%	30.0%	40.0%	40.0%	40.0%	40.0%	--
Insurance Switchers	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	--
Insurance Switchers (Children SCHIP)	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	--
Woodwork cost adjustment	0.0%	-5.0%	-10.0%	-15.0%	-20.0%	-20.0%	-20.0%	--
State Match Rates (SFY basis)								
Expansion Population	0.0%	0.0%	0.0%	2.5%	5.5%	6.5%	8.5%	--
Normal Medicaid	42.4%	42.4%	42.4%	42.4%	42.4%	42.4%	42.4%	--
Normal SCHIP	29.8%	29.8%	29.8%	29.8%	29.8%	29.8%	29.8%	--

STATE AGENCY OPERATIONS

Employee Salary Increases
At the present time there has been no collective bargaining agreement. Therefore this projected budget simply includes the same 2.5% annual increase that had been utilized last session. For purposes here this was applied to bargaining and non-bargaining employees. This was also applied to the University and State Colleges where salary agreements are also not finalized. A 2.5% per year increase is included for the FY14/FY15 biennium which approximates inflation.

Employee Health Insurance
At the present time insurance rates and cost increases for FY2013-14 and FY2014-15 are unknown. In the absence of actual numbers, these calculations use the agency request for the State Colleges (7.5% per year) and University of Nebraska (8% per year). For state agencies this projected status includes a 5% per year increase.

Operations Inflation
For FY14/FY15 biennium the only operating increases included are inflationary costs included at the DHHS 24 hour/7 days per week institutions, utilities for the Dept of Correctional Services and gasoline prices for the State Patrol. For the FY16/FY17 biennium, the projected status includes an allocation for operating cost increases equal to 2% of non-personnel operating costs including all state agencies, the University and State Colleges.

Inmate Per Diem Costs
While some costs at the Dept. of Correctional Services such as staffing are “fixed” within a range of inmate population, some costs change directly with each inmate. This includes items such as food, clothing, and medical care. The amount included is based on the agency request. A part of this larger than normal increase relates to annualizing a FY13 deficit request.

Retirement (defined benefit plans)
Shortfalls in defined benefit and cash balance retirement plans were projected to increase in both FY14, and FY15. At this time the increases included here are based on the agency request with annual increases of $32.3 million in FY14 and an additional $21.6 million in FY15 based on existing law. Actual levels of funding required will be determined later by actuarial analysis.

Health Care Reform (Operations)
Operations increases attributed to the health care reform are projected at 3.5% of any increased aid amount. Also included is $2.3 million General Funds per year for FY14, FY15, and FY16 per the agency request for information technology costs relating to the ACA.

CAPITAL CONSTRUCTION

General Fund dollars included in the projected budget for capital construction reflect reaffirmations only based on the FY10/FY11 biennial budget. These are dollar amounts needed to complete funding of previously approved projects. Nothing is included for new projects in FY12 or FY13.